

Message Text

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C O N F I D E N T I A L CAIRO 4216

EXDIS

EO 11652: GDS

TAGS: EAID EFIN EG IMF

SUBJECT: IMF DISCUSSIONS IN EGYPT

REF: A) CAIRO 9247 OF NOV 16, 1974 B) CAIRO 10150 OF DEC 13, 1974

1. DURING APRIL 226 MEETING WITH AMBASSADOR, ALSO ATTENDED BY DCM, AID DIRECTOR, AND COMLOFF, IMF REPRESENTATIVES JOHN GUNTHER AND PAUL DICKIE DESCRIBED IN GENERAL TERMS THEIR IMPRESSIONS OF PROSPECTS FOR REFORM AND IMPROVEMENT OF EGYPTIAN ECONOMIC SITUATION.

2. WITHOUT PROVIDING SPECIFIC DETAILS, GUNTHER SAID IMF IS PROPOSING TO GOE PROGRAM OF ECONOMIC REFORMS WHICH IT FEELS IS NECESSARY TO SET FALTERING EGYPTIAN ECONOMY ON PROPER COURSE. ACCEPTANCE OF THESE REFORMS WOULD BE CONDITION FOR IMF BALANCE OF PAYMENT ASSISTANCE WHICH GUNTHER SAID COULD BE OF LEVEL OF 150 TO 200 MILLION DOLLARS ANNUALLY OVER A PERIOD OF 3 YEARS.

3. GUNTHER NOTED THAT BOP DEFICIT WAS APPROXIMATELY LE 200 MILLION AND CURRENT YEAR DEFICIT WOULD PROBABLY REACH LE 150 MILLION. REDUCTION IN LATTER WOULD BE DUE PRIMARILY TO VARIOUS COMMODITY ASSISTANCE PROGRAMS OF WHICH EGYPT IS BENEFICIARY AND TOGETHER WITH EXPECTATION OF ARAB PROGRAM- TYPE AID OF \$400 MILLION, I.E. 1974 LEVEL.

4. REFORM PROGRAM -- NOT DESCRIBED IN DETAIL -- WOULD PROBABLY
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BE SIMILAR TO THAT PROPOSED NOV-DEC 1974, WHICH APPARENTLY

WAS REJECTED BY EGYPTIANS AS TOO DRASTIC IN TERMS OF POTENTIAL INTERNAL REPERCUSSIONS (SEE REFTEL). ACCORDING TO GUNTHER, IMF PROGRAM PRIMARILY AIMED AT RESTRUCTURING PRICE SYSTEM IN EGYPT AND WOULD INCLUDE: A) SOME SORT OF DEVALUATION B) REDUCTION OF SUBSIDY PROGRAM C) INCREASED WAGE LEVELS. D) GRADUAL INCREASE IN PRICES TO THOSE OF WORLD MARKET. E) RELAXATION OF RESTRICTION ON IMPORTS AND F) BETTER FACILITIES FOR FOREIGN INVESTMENT. GUNTHER SUGGESTED THAT INTERNAL POLITICAL IMPACT OF THIS PROGRAM WOULD BE TEMPERED BY GRADUAL APPLICATION, E. G. SUBSIDIZED PRICE ON BREAD WOULD BE MAINTAINED WHILE OTHER SUBSIDIES OF BASIC FOOD PRODUCTS WOULD BE REDUCED ONLY GRADUALLY.

5. GUNTHER MENTIONED MEETINGS IMF REPS HAD HELD WITH FINANCE MINISTER ABU ISMAIL AND MINISTER OF ECONOMY-ECON COOP SHAFEL. BOTH SEEMED SYMPATHETIC TO TECHNICAL NEED FOR IMF REFORMS, BUT WOULD BEHESITANT TO PUSH BECAUSE OF CONCERN OVER POLITICAL QUESTIONS. LATTER SAID HE WOULD BRING IMF PROPOSAL POSSIBILITY TO ATTENTION OF CABINET FOR DISCUSSION. GUNTHER, HOWEVER, FELT THIS WAS NOT HOW TO DEAL WITH SUCH A DELICATE PROBLEM, BUT RATHER BELIEVED THIS SHOULD BE TAKEN UP DIRECTLY WITH THE PRESIDENT AND PRIME MINISTER FOR DECISIONS WITHOUT EXTENSIVE PUBLIC DEBATE. HE DISCUSSED WITH AMBASSADOR WAY TO BRING THIS PROGRAM TO ATTENTION OF REAL GOE DECISION-MAKING LEVELS. AMBASSADOR SUGGESTED THAT, WHILE MINFINANCE DID HAVE ACCESS TO PRESIDENT, ANOTHER POSSIBILITY MIGHT BE CALL BY GUNTHER ON FONMIN FAHMY WHO HE KNEW WAS KEENLY INTERESTED IN THIS ECONOMIC PROBLEM AND WHO HAD CLOSE AND DIRECT ASSOCIATION WITH PRESIDENT.

6. AMBASSADOR NOTED ACTIVE USG INTEREST IN PROBLEM OF DETERIORATING ECONOMIC SITUATION IN EGYPT AND SUGGESTED THAT, ON THEIR RETURN TO US EARLY FOLLOWING WEEK, IMF SHOULD TOUCH BASE WITH UNDERSECRETARY ROBINSON, WHOSE RECENTLY SCHEDULED VISIT TO CAIRO IN THIS GENERAL CONNECTION WAS POSTPONED BECAUSE IT COINCIDED WITH CABINET RESHUFFLE.
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